

## Supplier-retailer business arrangements . . . Conservation tillage . . . Agriculture in Europe . . . Reform prospects in Russia

### **Changing Dynamics in Produce Marketing**

A large share of today's fresh produce is sold directly by shippers to retailers, bypassing intermediaries and terminal wholesale markets. Price may be just one component of a more complex shipper/retailer sales arrangement that could include off-invoice fees to retailers such as promotional fees or rebates, as well as services such as automatic inventory replenishment. In addition, while the fresh produce industry has traditionally marketed primarily through daily sales arrangements, the volume requirements of very large produce buyers and the demand for reliable, year-round availability and quality of produce is making longer term arrangements—i.e., contracts—more desirable for both shippers and retailers.

### **Marketing Fees Reflect Supplier-Supermarket Relationship**

In supplier-supermarket arrangements for marketing a variety of products, the use of marketing fees to retailers—e.g., rebates, shelf-placement fees, and advertising allowances—is becoming more common. Specialized fee agreements between suppliers and food retailers may be fixed payments or may vary with the quantity exchanged in the transaction or with volume of sales of a particular product. Most controversial is the “slotting” fee, a lump sum paid by suppliers to retailers for introducing new products to supermarket shelves. From the anticompetitive perspective, marketing fees are the result of changing balances in supplier vs. retailer market power, but the procompetitive view argues that fees help to enhance market efficiency.

### **Hog Producers' Returns To Moderate in 2001**

Pork production in 2001 is forecast up 2 percent from 2000, based on market hog inventory, pig crops, and farrowing intentions reported in December. As a result, hog prices in 2001 are expected to average in the low \$40's per cwt, compared with nearly \$45 in 2000 and the mid-\$30's in 1998 and 1999. With low feed



prices expected to continue, producer returns should remain above breakeven for most of the year.

### **Cutbacks in Potato Acreage Likely in 2001**

Record-high U.S. potato stocks and a corresponding drop in grower prices are prompting growers to plant fewer acres this year. To what extent growers will cut back remains in question as they evaluate market potential for alternative crops such as dry beans, wheat, sugar beets, and soybeans. A record harvest last fall (471 million cwt of potatoes) accounts for the current abundance of spuds and lower grower prices, which for October-December 2000 averaged 15 to 20 percent below year-earlier prices.

### **Crop Production Capacity in Europe**

From Spain to Ukraine, agricultural production is pursued under a vast array of agronomic and political conditions. In Western Europe, policies in recent decades have maintained high farm prices and provided income payments to farmers, often leading to surplus production. The region has been a large grain exporter for over two decades. In the countries of the former Soviet Union (FSU) and in Eastern Europe

where countries had been under Soviet influence, withdrawal of consumer and producer subsidies following political independence in the early 1990's resulted in lower crop yields and production. In the decade ahead, Europe as a whole will continue to be a net exporter of grain, although the magnitude of exports will depend partly on the ability of the FSU, particularly Russia and Ukraine, to develop institutions and policies to accommodate the new market conditions, encourage investment in the agricultural sector, and increase production capacity.

### **Institutional Reform in Russia: What Are the Prospects?**

Russia is a key customer for U.S. agricultural exports, especially meats. But the institutions inherited from the Soviet Union make it a relatively high-cost and risky country in which to do business. Western exporters operating in Russia face substantial costs in transporting meat between ports and provincial regions, in obtaining information about agricultural markets, and in enforcing contracts. Unreformed institutions not only function poorly in a market environment but have withstood most attempts to alter them. A recent Economic Research Service study shows that most of the Russian livestock market, for example, is isolated from world markets—in great part a result of the high costs of doing business within the country.

### **Conservation Tillage Firmly Planted In U.S. Agriculture**

Farmers across the nation used conservation tillage (no-till, ridge-till, and mulch-till) on more than 109 million acres of farmland in 2000, amounting to over 36 percent of U.S. planted cropland area and up from 26 percent in 1990. Use of no-till expanded threefold during the decade to reach more than 52 million acres, due partly to implementation of conservation compliance plans required to remain eligible for farm program benefits. Conservation tillage together with other crop residue management practices helps reduce soil erosion, slow nutrient and pesticide runoff, and cut farmers' fuel costs.